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THE HOUSE TRADE BILL: STRATEGY AND SUBSTANCE

Summary

The House of Representatives passed a sweeping trade bill April 30 that is designed to aid in the restoration of U.S. competitiveness as well as fight back against unfair trading practices abroad. Supporters of the bill believe that it is a much-needed first step if this country is to reclaim its place in the world trading system. Opponents insist that it is protectionist and certain to spark retaliation. This report will examine the contents of HR 3, the politics surrounding it and the prospects for a new trade law in 1987.

Introduction: From Back Burner to Priority

When the 100th Congress convened January 6 there was no shortage of trade proposals ready to be introduced. While trade had certainly been an issue during the second session of the 99th Congress, House-passed legislation had ultimately taken a back seat in the Senate. Last-minute action on tax reform, aid to the Nicaraguan contras and budget reconciliation took precedence, leaving trade legislation to die in the Senate Finance Committee. Still, even though the House debates indicated that trade was a mounting concern for both parties, it was the solid 55-45 Senate majority won by the Democrats during the 1986 midterm elections that pushed the issue to the top of the priority list. This was clear almost immediately after the elections when the new majority leader, Sen. Robert Byrd (D, W.Va.), announced that the shift in Senate control should be interpreted as a referendum on presidential policies -- especially trade.

The Democratic leadership on the other side of the Hill agreed and announced its intention to complete action on trade legislation by late spring. Despite protests that representatives should dissociate themselves from the controversial bill passed by the House during the previous Congress, which was widely considered protectionist, the majority leaders decided to use that legislation as a starting point. HR 4800 was reintroduced on the first day of the session and was renamed HR 3. The low number attached to the bill was no accident; it was intended to be a clear message to the White House that time constraints would not impede passage of a trade bill during 1987. In fact, the first three bills introduced during the 100th Congress revived Capitol Hill-administration battles from last year: the clean water bill, highway reauthorization and trade.

At least part of the reason for the emphasis on trade was Congress' failure to take significant action on the budget deficit. For Democrats, painfully aware that the public would hold them responsible for congressional actions in both chambers -- and already looking ahead to the 1988 presidential campaigns -- major tax increases and other ways to hike revenue were politically impossible. Thus, despite a near-consensus among economists that correcting the budget deficit is the best way to address the U.S. trade problem, lawmakers chose to reverse the priorities. Finance Committee chairman Lloyd Bentsen (D, Tex.) argued that since the trade deficit adds to the budget deficit by preventing economic growth, trade legislation would help alleviate the fiscal imbalance. Most legislators, however, admitted that although foreign unfair practices account for much less of the trade imbalance than does the budget deficit, trade legislation would be a positive "first step" toward restoring U.S. competitiveness.

Rhetoric remained at a high pitch, as legislators repeated familiar demands for "fair trade" and a "level playing field." New words were added to the trade jargon as well. The search for "competitiveness" became the trend-setting slogan, while lawmakers lambasted the growing "mercantilism" of U.S. trading partners. By contrast, support for free trade all but disappeared.

Recognizing the inevitability of a trade bill this time around, the administration indicated its intention to participate in the process -- a sharp turnabout from its insistence in 1986 that trade legislation was unnecessary and potentially harmful. The White House was also prompted by a second motive. Its legal right to submit trade agreements concerning nontariff barriers for fast-track (limited debate and no amendments) consideration to Congress is scheduled to expire in January 1988, while its right to proclaim reductions in tariffs has already run out. Faced with the demands of the Uruguay Round of multilateral trade negotiations and the proposed U.S.-Canada free trade agreement -- including the need to preserve the administration's negotiating credibility with its trading partners -- the White House recognized the need for a trade bill in 1987. But while acknowledging the inevitability of making certain concessions to Congress, officials hoped that their participation would help produce a more moderate bill than HR 4800.

On February 19 Senate Minority Leader Robert Dole (R, Kan.) introduced the administration's bill as S 539 and House Minority Leader Robert Michel (R,

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Ill.) introduced HR 1155 -- identical bills that pinpointed five broad areas as key to increased U.S. competitiveness: increased investment in human and intellectual capital; the promotion of science and technology; increased protection for intellectual property rights; legal and regulatory reforms; and "improving the international economic environment" through trade law reform. On the whole, the bill took a much milder approach to trade revision than HR 3, although it did indicate some early compromises from the executive branch.

Moreover, the White House continued to assert its credibility by stressing past activism in trade matters. Officials repeatedly pointed to the Reagan administration's unprecedented practice of self-initiating investigations of foreign unfair trade practices under Section 301 of the 1974 Trade Act, as well as the broad range of trade negotiations it counted as successes. Well aware of the mounting belief in Congress that the executive branch accomplishes far too little in its trade negotiations and the considerable skepticism about the beneficial effects of the dollar's depreciation, the administration has maintained a high trade profile thus far during the 100th Congress. Nonetheless, complaints about the results of some trade negotiations, especially the U.S.-Japan semiconductor accord, continued to mount. Pressure from Congress concerning semiconductors only added to the administration's frustration about Japan's compliance with the pact. On March 27 President Reagan announced that Washington would retaliate against Japan by imposing 100 percent tariffs on $300 million worth of Japanese products.

A Divergence of Strategies

HR 3 was referred to six committees: Ways and Means; Energy and Commerce; Foreign Affairs; Banking, Finance and Urban Affairs; Education and Labor; and Agriculture. Within these committees, there were varying reactions to the desirability of cooperating with the White House. The most glaring difference was between Ways and Means, which welcomed administration participation, and Energy and Commerce, which was determined to approve very tough legislation. Although Ways and Means never considered the administration's bill a viable alternative to HR 3, it did use it in developing a compromise.

Intense behind-the-scenes negotiations -- including close consultations with the administration -- led to the introduction of a compromise proposal when the Ways and Means markup began in early March. Committee chairman Dan Rostenkowski (D, Ill.) and trade subcommittee chairman Sam Gibbons (D, Fla.) introduced an alternative to the provisions in HR 3 under their committee's jurisdiction in an attempt to tone down some of the more controversial elements of the bill.

While many of the provisions that the administration objected to were altered or deleted, the most widely discussed was the revision of last year's "Gephardt amendment," which required any country with a pattern of unfair trade practices and "unwarranted" trade surpluses with the United States to reduce its surplus by 10 percent annually until the imbalance is no longer considered unwarranted. In Ways and Means' new version, negotiations were mandated to eliminate the unfair practices that led to the surplus. In the absence of an agreement, the administration was required to retaliate unless retaliation would damage this country. No quantitative targets for surplus reductions were required. This question of mandatory quantitative reductions was the key difference between Ways and Means and Richard Gephardt (D, Mo.) (see next section).

Having adopted some of the administration's proposals, the co-chairmen's initiative also retained several provisions that the White House had attempted to bury. Nonetheless, the Ways and Means substitute was greeted optimistically (if not with open arms) by the executive branch. It also received bipartisan support from the committee members, sailing through the final vote with only two dissenters in contrast to the party-line approval that similar sections of HR 4800 received from the committee last year. As the clearest attempt to formulate a compromise with the White House, the Ways and Means approach represented the intention of moderate Democrats (and most Republicans) to pass a bill that the president would be willing to sign.

But there was another -- and growing -- point of view among legislators, as illustrated by the markup process in the Energy and Commerce Committee. Representatives in this group were dubious about the administration's cooperation, which they said was a case of too little, too late. They went on to craft a new title for HR 3, pushing hard for a punitive strategy vis-a-vis U.S. trading partners.

Not surprisingly, most of the jabs were aimed at Japan. The committee approved provisions that would direct the U.S. Trade Representative to initiate a Section 301 investigation of restrictions on U.S. architectural, engineering, construction and consulting services in Japan (a result of the industry's frustrations with the bidding process for Kansai International Airport). Another addition was a nonbinding provision calling for the White House to evaluate the impact of foreign countries' defense spending on U.S. competitiveness, "including Japan's expenditures of 1 percent of its GNP on defense as compared to U.S. expenditures of 6 percent of its GNP." In response to Fujitsu, Ltd.'s attempted takeover of Fairchild Semiconductor Corp., the committee also reported language granting the president the right to block foreign ownership of an industry or part of an industry if it threatened national security.

The single most controversial action taken by Energy and Commerce, however, was the adoption of an amendment by John Bryant (D, Tex.) that would require foreign investors to make available for public use information on U.S. investments that have a market value of more than $10 million, equity interests in U.S. properties (of specified assets or sales) if they amount to 5 percent of the total ownership; non-transitory/non-speculative portfolio interests that have a market value of more than $50 million; and "controlling" equity interests that exceed 25 percent of total ownership in business enterprises (of specified assets or sales).

Proponents of this provision argued that known foreign investment in the United States (in terms of international capital flows) has more than doubled in the last five years. Further, they stressed that although foreign investment benefits the economy, more data should be available to policymakers -- especially given the debtor status of this country. Opponents stressed that the entire provision is based on a faulty premise: that foreign investment is somehow dangerous to the United States. Moreover, they say, it is unjustifiably discriminatory to require foreign disclosure while imposing no such requirement on U.S. investors. Last -- and most important -- opponents believe the retroactive element of the proposal would cause investors (especially those from countries having political difficulties with the United States) to liquidate current investments, and might induce them to turn elsewhere for future investments.

Although Energy and Commerce became the symbol of the hard-line approach on trade, other committees also adopted proposals that were punitive -- especially vis-a-vis Japan. One was the proposal by Charles Schumer (D, N.Y.), which was adopted by the Banking, Finance and Urban Affairs Committee, prohibiting the Federal Reserve Board or the Federal Reserve Bank of New York from granting primary dealer status to foreign firms if U.S. companies do not have equal access to purchases of government debt instruments in the dealers' home countries. The provision would also withdraw privileges from foreign firms that are already primary dealers.

The House Foreign Affairs Committee concentrated on export promotion measures, including provisions to establish a United States and Foreign Commercial Service Pacific Rim Initiative; to reduce the number of export items that are controlled for national security purposes; and to modify standards of culpability under the Foreign Corrupt Practices Act. The Agriculture Committee focused on improving the promotion of agricultual exports abroad, while the Education and Labor Committee zeroed in on improving educational and training programs.

Four other committees managed to attach their measures to the bill as well. First, Government Operations approved a "buy America" provision to bar firms in countries that discriminate against U.S. goods and services in making government purchases from competing for federal contracts. Second, the Merchant Marine and Fisheries Committee passed a proposal that would require negotiations with parties that "unreasonbly impair" the transportation of goods by U.S. vessels; retaliation would be optional. Third, the Public Works and Transportation Committee adopted a provision to tighten the time limits for investigations involving air transportation under the 1974 International Air Transportation Fair Competitive Practices Act. Fourth, the Small Business Committee added a title that would improve export promotion and technology transfer programs for small businesses.

To make matters more complex, jurisdictional disputes compounded the conflict between the moderate and hard-line philosophies. The sharp differences between Ways and Means and Energy and Commerce reflected the longstanding rivalry between trade subcommittee chairman Gibbons of the former and committee chairman John Dingell (D, Mich.) of the latter. Tensions were obvious in the markup process and in subsequent staff negotiations to reconcile conflicts. Nor was Ways and Means the only committee to feel threatened by the Energy and Commerce initiative. The chairwoman of the Banking, Finance and Urban Affairs subcommittee on economic stabilization, Mary Rose Oakar (D, Ohio), testified before the Rules Committee that several provisions that Energy and Commerce approved concerned international finance as well as defense production and offsets -- areas under the jurisdiction of her committee.

The Gephardt Amendment

As the debate continued, all eyes turned toward Rep. Gephardt. The Missouri Democrat unveiled a modified version of his 1986 proposal to cut the trade surpluses of certain countries, but recognized early on that he did not have enough support to win the approval of the Ways and Means Committee (of which he is a member).

Although critics complained that the pending amendment obscured many other provisions worth discussing, the attention was in large part justified.

Even before HR 3 reached floor debate, its passage was all but guaranteed. The question was how restrictive the final bill would be. Thus, since the Rules Committee placed the vote on the Gephardt amendment before any Republican-sponsored measures to alter or delete other controversial sections, the amendment became the litmus test of whether the House would swing toward the moderate or extreme position on trade.

Mr. Gephardt's "results-oriented" proposal would require the International Trade Commission to identify countries with "unwarranted" trade surpluses -- which are defined as those whose ratio of exports to imports is at least 175 percent, with more than $7 billion in total trade with the United States, a bilateral surplus of more than $3 billion (excluding petroleum), and a global trade surplus. Countries that fit these criteria include Japan, South Korea, West Germany and Taiwan. The USTR would then identify those that maintain a pattern of unfair trade practices and the administration would have six months to negotiate agreements to eliminate the practices in question. If no agreement is reached, the White House would have to take immediate action in the first year to achieve a reduction equal to the amount of the surplus that is deemed "unwarranted." In subsequent years an annual 10 percent reduction would be required until the country eliminates its unfair practices or the surplus is no longer judged unwarranted. (If an agreement is reached, but an annual reevaluation indicates that the country has not eliminated its unfair practices, the mandatory reductions would go into effect.)

According to Gephardt supporters, their proposal is preferable to the one approved by Ways and Means since it sets a standard by which to measure the actions of trade partners. Since the Rostenkowski-Gibbons proposal does not set up a monitoring system with specified targets, they say, foreign countries only have to agree to alter unfair practices in order to escape sanctions. Moreover, it is added, no immediate proof is required to demonstrate compliance in the committee version. It is important to note that both the Gephardt and Ways and Means proposals contain a broad loophole that would allow to president to refuse to take action in order to protect the national economy.

Critics denounced the rigidity of the mandatory quantitative reductions, warning that this would reduce the amount of world commerce and ultimately result in a trade war. Others, including USTR Clayton Yeutter, pointed out that bilateral trade policy negotiations may not be the optimal way to address a macroeconomic problem such as the deficit. They also argued that the Gephardt amendment was likely to inspire "mirror" legislation. Such retaliation would make it difficult for the United States to recover from its debtor status since in order to do so it will have to run a substantial current account surplus.

A less-discussed element of the Gephardt proposal concerns currency manipulation. Under this part of the amendment, if the Treasury Secretary determines that a country with an "excessive and unwarranted" bilateral trade surplus is also maintaining its currency at an artificially low level, the administration must enter negotiations to achieve a realignment of the foreign currency. If negotiations fail, the imposition of an "exchange rate equalization tariff" is optional. This is virtually identical to a provision approved by the Ways and Means Committee.

The House Trade Bill

With arguments for and against the amendment raging and a torrent of lobbyists making last-minute appeals to legislators, the fate of the Gephardt

provision was uncertain literally until the last minute. Observers were giving the provision a slightly better-than-even chance of House passage. After a heated debate led by Mr. Rostenkowski (opposing) and Mr. Gephardt (supporting), the amendment passed by a mere four votes, 218-214, on April 29 (see Table).

As expected, the success of that proposal set the tone for the rest of the debate: four Republican attempts to modify other controversial elements in HR 3 failed. In short, the final bill contained the more extreme version of every proposal offered on the floor. (See Appendix for a list of floor amendments.) The vote on the bill itself was a foregone conclusion; it passed resoundingly on April 30 by a vote of 290-137. This 2-1 victory margin showed the House's support for the broader aspects of the bill, if not all its specifics. Nevertheless, many legislators expect the Gephardt provision to be an early concession during a House-Senate conference committee, even though Mr. Rostenkowski has promised to fight to retain it.

Despite a substantial amount of Republican rhetoric decrying the trade and competitiveness problem, the vote on HR 3 followed party lines more closely than last year's vote on HR 4800. Only 43 Republicans voted for this year's proposal compared to 50 last year. Geographic factors obviously played a part in these Republican defections (see Figure). Of the 43, a full 15 came from the hard-hit industrial states of Pennsylvania and Michigan.

Votes on the Gephardt Amendment; HR 3; HR 4800

Gephardt Amendment

	YES	NO
Dem.	201 46.5%	55 12.7%
Rep.	17 3.9%	159 36.8%

HR 3

	YES	NO
Dem.	247 57.8%	6 1.4%
Rep.	43 10.1%	131 30.7%

HR 4800

	YES	NO
Dem.	236 57.6%	4 1.0%
Rep.	59 14.4%	111 27.1%

Votes On HR 3 By State

State	Partisan Breakdown of State's Representatives	"Yes" Votes	"No" Votes	Not Voting
Alabama	5 Dem; 2 Rep	5	2	0
Alaska	0 Dem; 1 Rep	0	1	0
Arizona	1 Dem; 4 Rep	1	4	0
Arkansas	3 Dem; 1 Rep	3	1	0
California	26 Dem; 18 Rep; 1 Vacant	23	19	3
Colorado	3 Dem; 3 Rep	3	2	1
Connecticut	3 Dem; 3 Rep	5	0	1
Delaware	1 Dem; 0 Rep	1	0	0
Florida	12 Dem; 7 Rep	12	7	0
Georgia	8 Dem; 2 Rep	8	2	0
Hawaii	1 Dem; 1 Rep	1	1	0
Idaho	1 Dem; 1 Rep	1	1	0
Illinois	13 Dem; 9 Rep	13	8	1
Indiana	6 Dem; 4 Rep	6	4	0
Iowa	2 Dem; 4 Rep	2	4	0
Kansas	2 Dem; 3 Rep	2	3	0
Kentucky	4 Dem; 3 Rep	5	2	0
Louisiana	5 Dem; 3 Rep	5	2	1
Maine	1 Dem; 1 Rep	2	0	0
Maryland	6 Dem; 2 Rep	7	1	0
Massachusetts	10 Dem; 1 Rep	11	0	0
Michigan	11 Dem; 7 Rep	17	1	0
Minnesota	5 Dem; 3 Rep	5	3	0
Mississippi	4 Dem; 1 Rep	4	1	0
Missouri	5 Dem; 4 Rep	6	3	0
Montana	1 Dem; 1 Rep	1	1	0
Nebraska	0 Dem; 3 Rep	1	2	0
Nevada	1 Dem; 1 Rep	1	1	0
N. Hampshire	0 Dem; 2 Rep	0	2	0
N. Jersey	8 Dem; 6 Rep	11	3	0
N. Mexico	1 Dem; 2 Rep	1	2	0
N. York	20 Dem; 14 Rep	23	11	0
N. Carolina	8 Dem; 3 Rep	11	0	0
N. Dakota	1 Dem; 0 Rep	1	0	0
Ohio	11 Dem; 10 Rep	14	7	0
Oklahoma	4 Dem; 2 Rep	4	2	0
Oregon	3 Dem; 2 Rep	2	3	0
Pennsylvania	12 Dem; 11 Rep	21	2	0
Rhode Island	1 Dem; 1 Rep	2	0	0
S. Carolina	4 Dem; 2 Rep	5	1	0
S. Dakota	1 Dem; 0 Rep	1	0	0
Tennessee	6 Dem; 3 Rep	7	2	0
Texas	17 Dem; 10 Rep	16	10	1
Utah	1 Dem; 2 Rep	1	2	0
Vermont	0 Dem; 1 Rep	1	0	0
Virginia	5 Dem; 5 Rep	5	5	0
Washington	5 Dem; 3 Rep	4	4	0
W. Virginia	4 Dem; 0 Rep	4	0	0
Wisconsin	5 Dem; 4 Rep	5	4	0
Wyoming	0 Dem; 1 Rep	0	1	0
Total:		290	137	7

Still, GOP leaders indicated that their primary objections to the bill were in only four areas: the Gephardt amendment (which they labeled a "recessionary time bomb"); the banking title (including provisions concerning exchange rate target zones, reciprocity in financial markets and measures to address the third world debt crisis); "buy America" provisions for government procurement; and the Bryant amendment on disclosures of foreign investments. A summary of other major elements of the bill follows:

Unfair Trade Practices (Section 301 of the 1974 Trade Act) - The U.S. Trade Representative rather than the president would determine whether a foreign practice is unfair and would have the right to recommend action, although the president would still decide what action, if any, to take. The bill mandates retaliation for certain unfair practices but leaves a fairly broad loophole if the president chooses not to act. Moreover, the bill specifies new actions to be classifed as unfair, including export targeting, denial of internationally accepted labor rights, toleration of cartels and lack of reciprocal market access.

Relief for Industries Injured by Imports (Section 201 of the 1974 Trade Act) - The USTR rather than the president would determine what relief -- if any -- would be given to a domestic industry. If the International Trade Commission makes a positive injury determination, trade adjustment assistance benefits would automatically be accorded to affected workers and firms. Provisional import relief (while the injury determination is being made) would be provided for industries facing critical circumstances.

Antidumping and Countervailing-Duty Laws - Duties could be imposed against "diversionary dumping," that is, goods exported to the United States that contain a major component that is subject to antidumping penalties. Procedures to monitor goods that contain previously dumped or subsidized items -- "downstream product monitoring" -- are also included. The bill would facilitate the ability of U.S. firms to initiate private suits to claim damages for past dumping violations. It also provides for some of the antidumping penalty funds to be used to compensate firms that have been injured by dumping.

Intellectual Property (Section 337 of the 1930 Tariff Act) - The USTR rather than the president would be authorized to review these cases after the ITC issues recommendations. The USTR would also establish priority countries for negotiations to protect intellectual property. Most importantly, the bill removes the requirement that a firm must demonstrate that it has been injured before it qualifies for relief.

Export Promotion - The bill would increase the funding and number of programs devoted to promoting U.S. exports. With regard to export controls, the Commerce Department must strive to achieve a 40 percent reduction in the number of controlled items. At the same time, the bill eliminates several export licensing requirements and expedites the export license application process. An appropriation of $5 million would also be used to improve the export promotion efforts of small businesses.

Maritime Provisions - The legislation requires the Federal Maritime Commission to determine practices that "unreasonably impair" the transportation of goods by U.S. ships. The Transportation Department would initiate negotiations to eliminate these unfair practices. Retaliation would be optional.

Miscellaneous Provisions - With regard to telecommunications trade, the USTR would enter into negotiations to eliminate foreign barriers; if no agreement is reached, retaliation would be mandatory (but the president would have a broad set of retaliatory options). The administration's authority to proclaim reductions in tariffs and to submit nontariff trade agreements for "fast-track" consideration would be renewed, although the bill provides for increased consultations with Congress on trade negotiations. With regard to mergers and acquisitions by foreign companies, the president would be authorized to restrict any such ventures if they would threaten the national security. Time limits for action on unfair practices in the area of air transportation would be tightened. The drive to improve U.S. competitiveness led to the inclusion of sections providing for expanded trade adjustment assistance and educational programs as well as the establishment of a Council on Industrial Competitiveness. Provisions are included to expand U.S. agricultural exports abroad (for example, the expansion of the Export Enhancement Program).

The Final Product: Veto Bait or Consensus?

That some sort of trade legislation will pass both chambers in 1987 is common wisdom in Washington these days. The question is how tough the final House-Senate compromise will be -- and whether the bill will earn a presidential veto. While it is still too soon to tell, there is a good chance that a "signable" bill will emerge from the process.

For one thing, there is little political mileage to be gained by the Democrats in adopting a confrontational approach. Trade has been a notoriously poor issue on which to base a national campaign. Many observers have concluded that Walter Mondale's failure to win the 1984 presidential race was at least partly because he was viewed by the American people as too protectionist. And although presidential aspirant Richard Gephardt's campaign has thus far centered around the trade dispute, his office insists that the Gephardt amendment was not motivated by political purposes. Since the issues involved in the 1988 presidential campaign will certainly expand to include other topics, it appears probable that Mr. Gephardt's stance on trade will serve him best in terms of name recognition.

Moreover, the majority leadership on both sides of Capitol Hill has all but staked its reputation on a promise that the public will get a trade bill before the end of the year. This means that work on the measure should be concluded before the 1988 races really heat up. While one House staff member surmised that there are certainly some legislators who would like to see trade become a political asset for their party, most recognize that it is a dangerous strategy to force the president to veto the bill by including a host of extreme provisions. Given the intensity of the congressional controversy over certain elements of the bill, it is doubtful that either chamber would be able to override a veto of legislation similar to HR 3.

In fact, many representatives who voted for the Gephardt amendment have already indicated that they do not approve of its extreme approach, but wanted to show their backing for the candidacy of Mr. Gephardt. Others who voted against the amendment but for the bill expressed a hope that certain elements of HR 3 would disappear during a conference committee. Because HR 3 is far from its final stages, legislators are more willing at this point to support

controversial provisions in order to gain bargaining leverage for the upcoming conference committee, to send a warning to the administration or trading partners, or to score political points back home.

Finally, a compromise is still feasible because the Senate will probably produce a more moderate bill. Although the Senate proposal, S 490, was in many respects harsher than HR 3, Finance Committee chairman Bentsen proposed several compromise amendments during the committee's early May markup. While several provisions are objectionable to the administration -- especially those mandating retaliation for certain unfair trade practices (Section 301) and relief under Section 201 -- the chairman has tried to achieve a bipartisan consensus on the bill. And to a large degree, he has succeeded. The committee approved the proposal by a vote of 19-1, although ranking minority member Robert Packwood (R, Ore.) warned that his "yes" vote in committee will not extend to the floor consideration unless the legislation is modified. Moreover, to date there does not appear to be a Senate committee that will embrace the hard-line position that Energy and Commerce adopted in the House.

Given the major differences between the House and Senate Finance proposals, it is the conference committee that will ultimately decide how tough the final bill will be. Several moderate legislators hope to iron out the differences between the bills and eliminate the extreme provisions. The converse of this scenario is, of course, that the influence of the hardliners may continue to grow -- and that each chamber may accept the toughest elements of the other's proposal. The most likely event is that the resulting legislation will fall somewhere in between: minus the most extreme proposals, but including some provisions that remain objectionable to the White House.

But there is a long way to go before the proposed legislation will be acceptable to the executive branch. Certainly the adminstration has threatened to veto any proposal containing the Gephardt amendment. But according to a May 9 report by the Washington Post, the president has hinted that <u>both</u> HR 3 and the Finance Committee version of S 490 (which does not include the controversial proposal) are prime targets for vetos. The Post quoted White House spokesman Marlin Fitzwater as saying that the president "would like to get trade legislation from Congress that he can sign. But what we have seen to date is not at all encouraging."

Moreover, the administration has been somewhat reticent as to how far it is willing to compromise with Congress. With respect to HR 3, officials sent a letter to House members three days before the final floor vote objecting (among other things) to provisions on mandatory retaliation; restrictions on foreign investment (the Bryant amendment and the provision allowing the president to block foreign acquisitions); legislated exchange rate objectives; amendments to the antidumping and countervailing-duty laws; the inclusion of violations of worker rights as an actionable unfair trade practice; and the maritime title.

Although the White House has not said whether it will accept a middle ground between this position and the current version of the trade bill, it is still early in the game. White House spokesmen actively participated in the Senate Finance Committee markups and are likely to volunteer their opinions in other committees. The executive branch has, after all, publicly recognized the value of trade legislation by offering its own bill. It would be especially painful if U.S. negotiators had to continue the Uruguay Round without a renewal

of their negotiating authority and with the prospect of a veto override vote pending in the background. As for Congress, Democratic legislators are committed to the bill's passage, as are many Republicans. Even the staunchest free traders are loathe to appear soft on trade to their constituents. In the final analysis, then, it may well be in the best interests of all involved to develop a workable compromise.

For further information, contact Eileen Marie Doherty.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Appendix: Floor Amendments Offered To HR 3

Marcy Kaptur (D, Ohio) Passed: 398-19	Adds to U.S. trade negotiating objectives an international agreement limiting most favored nation status to countries extending reciprocal market access.
Claude Pepper (D, Fla.) Passed: 394-27	Directs the USTR to report to Congress concerning methods to improve enforcement of restrictions on imports from Cuba.
Richard Gephardt (D, Mo.) Passed: 218-214	Requires certain actions to be taken with regard to countries with excessive and unwarranted trade surpluses.
Chalmers Wylie (R, Ohio) Defeated: 187-239	Complete substitute for Banking title.
Jim Olin (D, Va.) Passed (voice vote)	Deletes section dealing with milk price supports (excess casein imports).

Sam Gibbons (D, Fla.) Passed (voice vote)	Deletes section 671 on meat food product labeling.
Norman Lent (R, N.Y.) Defeated: 190-230	Allows certain exemptions to the investment disclosure requirements of the Bryant amendment.
Steny Hoyer (D, Md.) Passed (voice vote)	Establishes a sense of the Congress that the president should express oral opposition to the slave labor policies of the Soviet Union.
Donald Lukens (R, Ohio) Passed (voice vote)	Changes effective date of section placing lace gloves made with plastic or rubber under the same tariff as textile gloves.
Ernest Konnyu (R, Calif.) Defeated (by division)	Deletes "buy America" act for government procurement.
Frank Wolf (R, Va.) Passed: 232-183	Suspends most favored nation treatment for the products of Romania.
Don Pease (D, Ohio) Passed (voice)	Requires the president to include a trade impact statement in his proposed budget and the report accompanying the budget resolution (see JEI Report No. 15B, April 17, 1987).
Robert Michel (R, Ill.) Defeated: 156-258	Complete substitute for HR 3.